

Approved For Release 2001/09/28 : CIA-RDP85T00875R000200010010-4
CIA/OER/S-06629-74 SIX MAJOR FOR COUNTRIES:
ECONOMIC PROB AND PROSPECTS UNCL/OUO

NOV 74
01 OF 01

20 November 1974

SUBJECT: The Six Major Foreign Countries:*
Economic Problems and Prospects

Key Points

- The world's major economies have gone into a pronounced slump in 1974.
- The outlook for economic growth through 1975 is dismal; GNP will grow an average of only 1 1/2% in the current half year and do little better next year.
- Industrial output has weakened progressively this year and will remain in the doldrums in 1975.
- The combined number of unemployed in the six major foreign countries has increased by 25% over last year, while unit labor costs have mounted rapidly.
- Inflation will decelerate over the next year or so but remain extremely high by normal standards.
- The current account balances of the six major foreign countries should show a small improvement during 1975 over the dismal record of 1974.

MICRO
ONLY

* West Germany, France, the United Kingdom, Italy, Japan, and Canada.

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THE DETAILS

1. The world's major developed countries have just gone through one of the sharpest upswings and subsequent decelerations in growth ever experienced. Instead of the "soft landing" that had been hoped for, the real annual growth rate for the six major foreign economies plunged from 9% in the first half of 1973 to a negative 0.9% in the same period this year. The sharp deceleration resulted from a confluence of forces: a normal cyclical downturn, the simultaneous adoption of more restrictive policies, and the contractionary impact of the oil crisis.

2. The outlook for economic growth in the major foreign industrial economies through 1975 is dismal, but a 1930s-type depression is unlikely. GNP will grow at an annual rate of only 1 1/2% in the current half-year. Growth in the first half of next year will be little better, and a further slowdown may well occur after mid-1975 if expansionary measures are not adopted early in the year. Several factors are contributing to the gloomier outlook now forecast by both OECD and OER for next year. Potential production cuts due to drawdowns on large inventories, the additional contractionary impact of further oil price hikes, and a slowdown in world trade volume have affected growth prospects in most countries. In addition:

- The West German government has continued to postpone a shift to more expansionary policies, despite a more pronounced weakening in net foreign demand than earlier expected, rising unemployment, and a continued investment slump.
- The outlook for France, still relatively bright, has been dampened by slackening consumer demand, scaled-down plans for industrial expansion, strikes, and a slowdown in export volume.
- Growth prospects for Canada have been dimmed by a sharp drop in US demand.
- Expectations for Japanese growth have been dimmed by an inventory overhang, weak consumer demand, and continued tight economic policies.
- The outlooks for Italy and the United Kingdom, already bleak, have been further clouded by labor difficulties.

3. Industrial output in the six major foreign countries has been weakening progressively this year. By August, their combined monthly output had fallen below the year-earlier level. The year-to-year drop, which is still continuing, was led by the two largest economies; Japan's output is off by 7% and West Germany's by 5%. Production almost certainly will remain in the doldrums well into 1975.

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- Consumer demand will weaken further as unemployment edges up.
- Business investment will lose strength with the shrinking of profits.
- Industrial exports already are being hit by the worldwide economic slowdown.
- Swollen inventories will delay the impact of a switch to more expansionary policies.

4. The combined number of unemployed in the six major countries has increased by 25% over the last year. The worsening has been most severe in West Germany, where the unemployment rate has jumped from a normal 1% of the work force to 3.8% in October 1974. In some countries, government measures are being taken to lessen the impact on workers. Paris is providing nearly full take-home pay for its unemployed for up to one year; Tokyo is giving "paid holidays" to many of its underemployed workers; West Germany has severely restricted the hiring of foreign workers. Unit labor costs have mounted rapidly, particularly in Japan, where they are up some 30%. Short-time workers have more than doubled in West Germany and France. Depressed output will keep unemployment and labor costs high well into 1975.

5. Both OECD and OER are projecting some deceleration in inflation over the next year or so. With demand depressed and inventories apparently quite high, a slowdown in price rises for selected manufactured goods is considered likely. Softening demand should also pull down prices for industrial raw materials. Shortfalls in production of food and other agricultural goods will prove troublesome, however, as will spiraling wage costs. All the major countries except West Germany, will continue to suffer from double-digit inflation at least through 1975. Price rises in Italy and the United Kingdom will remain particularly virulent, mainly because large wage increases will add to cost pressures.

6. The current account deficits of the big six foreign countries will total about \$17 billion next year following a combined deficit of about \$21 billion this year. The deficit for the OECD as a whole will run about the same as this year -- \$40 billion. Important shifts in the deficits of individual countries and in the direction of trade will occur. Declining exports to developing countries will be offset by expanding sales to oil-producing nations. Canada's deficit is expected to increase by close to \$2 billion while West Germany's large surplus will be cut by about \$3 billion. Japan, which has experienced a rapid turnaround in its trade accounts, is likely to show only a small deficit of next year compared with \$5 1/2 billion this year. The current account deficits of France, the United Kingdom, and Italy will each run in the neighborhood of \$6 billion to \$7 billion, down slightly from last year.

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MEMORANDUM FOR: [REDACTED]

NIO/Economics

STATINTL

Attached is the information
requested for the Director.

STATINTL

[REDACTED]
Deputy Director
Office of Economic Research

20 November 1974
(DATE)

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FORM NO. 101 REPLACES FORM 10-101
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